

STATE OF WASHINGTON

MIKE KREIDLER
STATE INSURANCE COMMISSIONER

Phone: (360) 725-7000



OFFICE OF
INSURANCE COMMISSIONER

In the Matter of)	No. G 03-80
)	
The Financial Examination of)	FINDINGS, CONCLUSIONS,
FIRST NATIONAL INSURANCE)	AND ORDER ADOPTING REPORT
COMPANY OF AMERICA)	OF
A Domestic Insurer.)	FINANCIAL EXAMINATION

BACKGROUND

An examination of the financial condition of **FIRST NATIONAL INSURANCE COMPANY OF AMERICA** (the Company) as of December 31, 2000, was conducted by examiners of the Washington State Office of the Insurance Commissioner (OIC). The Company holds a Washington certificate of authority as a stock insurer. This examination was conducted in compliance with the laws and regulations of the state of Washington and in accordance with the procedures promulgated by the National Association of Insurance Commissioners and the OIC.

The examination report with the findings, instructions, and comments and recommendations was transmitted to the Company for its comments on June 11, 2003. The Company's response to the report is attached to this order only for the purpose of providing convenient review of the response.

The Commissioner or a designee has considered the report, the relevant portions of the examiners' work papers, and submissions by the Company.

Subject to the right of the Company to demand a hearing pursuant to Chapters 48.04 and 34.05 RCW, the Commissioner adopts the following findings, conclusions, and order.

FINDINGS

Findings in Examination Report. The Commissioner adopts as findings the findings of the examiners as contained in pages 2 through 32 of the report.

FIRST NATIONAL INSURANCE COMPANY OF AMERICA
Order Adopting Examination Report
September 19, 2003

CONCLUSIONS

It is appropriate and in accordance with law to adopt the attached examination report as the final report of the financial examination of **FIRST NATIONAL INSURANCE COMPANY OF AMERICA** and to order the Company to take the actions described in the Instructions and Comments and Recommendations sections of the report. The Commissioner acknowledges that the Company may have implemented the Instructions and Recommendations prior to the date of this order. The Instructions and Recommendations in the report are an appropriate response to the matters found in the examination.

ORDER

The examination report as filed, attached hereto as Exhibit A, and incorporated by reference, is hereby ADOPTED as the final examination report.

The Company is ordered as follows, these being the Instructions and Comments and Recommendations contained in the examination report on pages 3 through 10.

1. The Company is ordered to comply with RCW 48.05.250(1) which requires the Company to file a true statement of its financial condition, transactions and affairs. This order is specifically relevant to each of the following:

Instruction 1 – Unreconciled Bank Balance - Examination Report, page 3.
Instruction 5 – Errors in Annual Statements – Examination Report, page 6.
Instruction 7 – Preferred Stock Not Reported in Annual Statement – Examination Report, page 7.

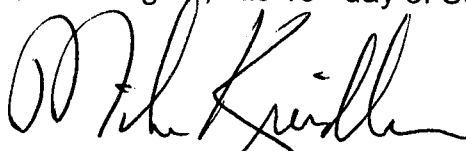
2. The Company is ordered to ensure that all accounting controls be reviewed, and deficiencies identified and corrected in compliance with RCW 48.05.280. This order is specifically relevant to each of the following:

Instruction 1 – Unreconciled Bank Balance – Examination Report, page 3.
Instruction 7 – Preferred Stock Not Reported Annual Statement – Examination Report, page 7.
Instruction 8 – Agents' Balances or Uncollected Premiums – Examination Report, page 9.
Instruction 9 – Safekeeping of Securities – Examination Report, page 9.
Instruction 10 – Inadequate Records of Agents' Balances – Examination Report, page 9.
Instruction 11 – Incomplete and Incorrect Finance Committee Minutes – Examination Report, page 10.

3. The Company is ordered to make provision for the examination adjustments to its loss and loss adjustment expense reserves in compliance with RCW 48.12.030(2), which provides that the Company estimate its provision to pay its unpaid losses and claims incurred on or prior to the date of the annual statement together with the expense of adjustment or settlement thereof. Instruction 2, Examination Report, page 4.
4. The Company is ordered to comply with RCW 48.13.290(1) and dispose of any ineligible foreign securities in a time frame as specified under Special Consent Order No. 98. Instruction 3, Examination Report, page 5.
5. The Company is ordered to submit for approval to the OIC an inter-company agreement with SAFECO Asset Management Company (SAM) and all pertinent affiliates in compliance with RCW 48.31B.030(1)(a) and RCW 48.31B.030(1)(b)(iv). Instruction 4, Examination Report, page 5.
6. The Company is ordered to correct and maintain amortization schedules on individual investments that will tie to the amortization reported in Schedule D and is ordered to comply with RCW 48.12.170(1)(b) which provides that bonds or evidences of debt having a fixed term and rate purchased above or below par shall be valued on the basis of the purchase price adjusted so as to bring the value to par at the earliest date callable or maturing at par or in lieu of such method, according to such accepted method of valuation as is approved by the commissioner. Instruction 6, Examination Report, page 7.
7. The Company is ordered to comply with RCW 48.12.010(5) and (10) in determining the admissibility of agents' balances or uncollected premiums. Instruction 8, Examination Report, page 9.
8. The Company is ordered to use due care and diligence in the tracking and oversight of custodial arrangements entered into in compliance with NAIC guidelines. Instruction 9, Examination Report, page 9.
9. The Company is ordered to keep complete and correct finance committee minutes in compliance with RCW 48.13.340. Instruction 11, Examination Report, page 10.
10. The Company is ordered to adopt individual investment guidelines that cover the investment requirements in the Washington Insurance Code. Comments and Recommendations 1, Examination Report, page 10.

IT IS FURTHER ORDERED THAT, the Company file with the Chief Examiner, within 90 days of the date of this order, a detailed report specifying how the Company has addressed each of the requirements of this order.

ENTERED at Tumwater, Washington, this 19th day of September, 2003.

A handwritten signature in black ink, appearing to read "Mike Kreidler". The signature is fluid and cursive, with the first name "Mike" written in a larger, more prominent script than the last name "Kreidler".

MIKE KREIDLER
Insurance Commissioner



RECEIVED
JUL 16 2003

INSURANCE COMMISSIONER
COMPANY SUPERVISION

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Seattle, WA 98185-0001

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Phone: (206) 545-6447
Fax: (206) 545-6277
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SCANNED

July 14, 2003

Mr. James T. Odiorne, CPA, JD
Deputy Insurance Commissioner
Company Supervision Division
Office of the Insurance Commissioner
P. O. Box 40255
Olympia, WA 98504-0255

Re: Examination Report of First National Insurance Company of America
as of December 31, 2000

Dear Mr. Odiorne:

Enclosed are Safeco's responses to the draft reports of examination. Do not hesitate to contact me if questions or concerns arise in the course of your review.

We would like to take this opportunity to express our appreciation for the professionalism demonstrated by the Department staff. We appreciate having had the opportunity to work with them.

Sincerely,

Laura M. Murphy
Vice President and Associate General Counsel

Enc.

FIRST NATIONAL INSURANCE COMPANY OF AMERICA
("the Company")

COMPANY RESPONSES

First National Insurance Company of America has reviewed the Instructions, Comments and Recommendations contained in the Report of Examination (as of December 31, 2000), and makes the following responses. In general, corrections or changes in procedure required by the report already have been put into place. There are some matters about which the Company disagrees with the report's findings, and these are described below.

INSTRUCTIONS

1. Unreconciled bank balance

The Company has made the necessary correction or change in procedure.

2. Loss and loss adjustment expense

The Company will continue to regularly review its reserves and will continue to respond appropriately to changes in loss development.

3. Prohibited investments in foreign securities

The Company is complying with the requirements of Special Consent Order No. 98, issued by the Office of the Insurance Commissioner on December 20, 2002.

4. Insurer Holding Company Act violations

Within the Safeco group of companies and pursuant to the operation of existing intercompany agreements, we view employees who perform investment activity as employees of the entity for which they are performing investment services. For this reason, we believe it unnecessary to have an investment services agreement between the companies. However, the Company will comply with the instruction that a specific written agreement for investments be implemented.

5. Errors in annual statements

The Company has made the necessary correction or change in procedure.

6. Bonds – Amortization

The Company believes its amortization schedules are valid. The schedules were derived from an accounting model in PAM, an accounting system used by major

insurers around the country. The Company notes that the total variance between the amortized cost on Exhibit 1 to the exam report and the PAM schedule's amortized cost is 0.012%

7. Preferred stock not reported in annual statement

The Company has made the necessary correction or change in procedure.

8. Agents' balances or uncollected premiums

The Company has made the necessary correction or change in procedure.

9. Safekeeping of securities

The custody agreement was revised on July 23, 2001, and amended on August 23, 2001, to comply with NAIC guidelines.

10. Inadequate records of agents' balances

The Company has made the necessary correction or change in procedure.

11. Incomplete finance committee minutes


The Company has made the necessary correction or change in procedure.

COMMENTS AND RECOMMENDATIONS

1. Investment guidelines

The Company is considering the instruction that it maintain both individual company investment guidelines as well as individual state investment guidelines. The Company notes that it monitors investments for compliance with the Washington Code, and that this is a specific responsibility of the Corporate Finance compliance analyst. Corporate Finance has developed a comprehensive surveillance system to ensure that all Washington insurance company investments comply with the Washington investment code.

Respectfully submitted,



Christine B. Mead
Senior Vice President and Secretary